

STATEMENT FOR THE RECORD OF JON H. SEYMOUR,
ASSISTANT SECRETARY FOR ADMINISTRATION,
U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE COMMITTEE ON GOVERNMENT OPERATIONS,
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY,
UNITED STATES SENATE,
JUNE 3, 1986

THE DEPARTMENT OF TRANSPORTATION HAS SUBMITTED THREE REPORTS UNDER FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) COVERING FISCAL YEARS 1983, 1984, AND 1985. DURING THIS TIME WE HAVE WORKED TO IMPROVE AND STREAMLINE THE PROCESS.

UNDER THE DEPARTMENT OF TRANSPORTATION'S FMFIA SECTION 2 IMPLEMENTATION, WE WILL HAVE COMPLETED OUR FIRST TWO YEAR CYCLE OF INTERNAL CONTROL REVIEWS (ICR'S) BY SEPTEMBER 30, 1986. IN ADDITION, WE ARE CONDUCTING OUR SECOND CYCLE OF VULNERABILITY ASSESSMENTS (VA'S) THIS YEAR.

WE HAVE IMPROVED THE VA AND ICR PROCESS BY (1) STANDARDIZING AND STREAMLINING OUR VA QUESTIONNAIRE, (2) DEVELOPING SEPARATE GUIDELINES FOR AUTOMATIC DATA PROCESSING VA'S AND ICR'S, AND (3) IMPLEMENTING A DEPARTMENT-WIDE ICR TRACKING SYSTEM. THE STANDARD QUESTIONNAIRE PROPERLY ADDRESSES VA ISSUES BUT IS NOT AS PAPER OR LABOR INTENSIVE AS OTHER VA PROCESSES. THE SEPARATE GUIDELINES FOR AUTOMATIC DATA PROCESSING VA'S AND ICR'S PROVIDES THE ADDITIONAL GUIDANCE THAT IS NECESSARY IN THIS UNIQUE AND COMPLEX AREA. THE DEPARTMENT-WIDE TRACKING SYSTEM INCLUDES A LIST OF ASSESSABLE UNITS AS WELL AS A SCHEDULE FOR ICR'S. THIS SYSTEM WILL PROVIDE A MANAGEMENT TOOL AT THE OFFICE OF THE SECRETARY'S LEVEL TO ASSIST IN COORDINATING THE TIMELY COMPLETION OF THE ICR PROCESS AND IDENTIFICATION OF CORRECTIVE ACTIONS TAKEN.

IN ADDITION, UNDER FMFIA SECTION 4, WE CONDUCTED DETAILED REVIEWS ON ALL ACCOUNTING SYSTEMS IN BOTH 1983 AND 1984. WE HAVE ALSO STREAMLINED THIS PROCESS BY ADOPTING THE OFFICE OF MANAGEMENT AND BUDGET'S (OMB) CIRCULAR A-127 THREE YEAR CYCLE APPROACH. THIS APPROACH PROVIDES FOR ONE DETAILED REVIEW OF EACH ACCOUNTING SYSTEM EVERY THREE YEARS, AND A LIMITED REVIEW OF EACH SYSTEM DURING EACH OF THE TWO YEARS IN WHICH A DETAILED REVIEW IS NOT CONDUCTED. OUR SCHEDULE, THEREFORE, IS TO CONDUCT DETAILED REVIEWS ON ALL OF OUR ACCOUNTING SYSTEMS BY THE END OF FISCAL YEAR 1987.

WE BELIEVE THAT THE FMFIA HAS REDUCED THE POTENTIAL FOR FRAUD, WASTE, AND ABUSE IN OUR DEPARTMENT. THROUGH OUR TRAINING, VA, AND ICR PROCESSES, MANAGEMENT AT ALL LEVELS HAS BEEN ATTUNED TO THE IMPORTANCE OF INTERNAL CONTROLS.

WE HAVE EXPERIENCED SOME PROBLEMS IN FULLY IMPLEMENTING FMFIA. THE FIRST PROBLEM IS THAT THE IMPLEMENTATION OF FMFIA IS VERY LABOR INTENSIVE, AND MUST COMPETE WITH OTHER REQUIREMENTS PLACED ON LIMITED STAFF RESOURCES. OUR EFFORTS TO STREAMLINE AND STANDARDIZE THE VA PROCESS MENTIONED PREVIOUSLY ARE DESIGNED TO ADDRESS THIS PROBLEM.

A SECOND PROBLEM, WHICH OUR EXPERIENCE AND A PRESIDENT'S COUNCIL ON MANAGEMENT IMPROVEMENT (PCMI) STUDY HAS SURFACED, IS THAT THE MARGINAL INCREASE IN INTERNAL CONTROL WEAKNESSES DISCLOSED THROUGH THIS PROCESS MAY NOT JUSTIFY THE PROCESS AS IT IS CURRENTLY STRUCTURED. IT IS OUR UNDERSTANDING THAT A PCMI TASK FORCE IS CURRENTLY WORKING ON RESTRUCTURING THE PROCESS TO ALLEVIATE THIS PROBLEM.

RESPONSE TO SPECIFIC QUESTIONS

1. How do you interpret and use the definition of material weakness provided in FMFIA guidance, that is, what is your department's specific criteria for identifying a material weakness and for distinguishing a material from a non-material weakness?

For internal reporting purposes within the Department, we have provided our Administrations with the definition of a material weakness which should be reported to the Secretary. A material weakness was defined as meeting one or more of the following parameters:

- a. The weakness has resulted in an actual or alleged fraud over \$5,000 traceable to an internal control weakness.
- b. The weakness has prevented or is likely to prevent substantial achievement of an assessable unit's program, administrative, or financial objectives. Where the objectives are financial, a weakness would generally be considered material if it has resulted or is likely to result in a loss or waste of resources amounting to the lesser of \$500,000 or 5 percent of the assessable units resources.
- c. The weakness has resulted or could result in adverse publicity or embarrassment to the Department which diminishes credibility or reputation.
- d. The weakness had or could have an adverse impact on the public or third parties.
- e. The weakness was brought to the attention of the Assistant Secretary, Administrator, or Commandant outside of the normal A-123 process.
- f. The weakness has resulted or could result in violation(s) of statutory or regulatory requirements, e.g., Prompt Payment Act, Antideficiency Act, etc.
- g. The weakness created or could create a conflict of interest situation.

The list was not meant to be all inclusive. If an Assistant Secretary, Administrator, or Commandant considered an item reportable to the Secretary, it was to be included in the report. Once these material weaknesses are reported to the Secretarial level, members of my staff and Inspector General representatives use professional judgment in determining which weaknesses are material from a Departmental perspective.

- a. Do you report material weaknesses that are not necessarily systemic to your department or its major components?

In certain instances we have reported material weaknesses which were not systemic to our Department or its major components, for in our opinion the weakness could have had a significant impact on the Department.

For example, we reported that two Urban Mass Transportation Administration grantees had acquired \$46.8 million in real property in excess of project needs even though this occurred in only one region. Another example is our reporting that a weakness existed in the identification, storage, and disposal of hazardous materials and fuel at the Federal Aviation Administration Technical Center.

- b. Do you include in your FMFIA report material weaknesses for which corrective actions have already been planned or started?

Yes.

2. What levels of your agency's management are involved on a consistent basis in establishing and maintaining effective management and accounting systems controls under the FMFIA?

All levels.

3. Are your managers rated, using a distinct performance category on their performance appraisal, on how well they perform their FMFIA responsibilities, including establishing and maintaining effective management controls? If your answer is "no," what plans do you have to include such evaluations in future performance appraisals?

No, we do not have a distinct performance category on FMFIA responsibilities. We have no plans to include a distinct performance category in future evaluations, for it would tend to subsume other equally important management responsibilities.

4. If you are streamlining the FMFIA evaluation process in conjunction with recent initiatives of the President's Council on Management Improvement, how are you assuring that the streamlining still provides for adequate testing of your management controls?

There are current PCMI initiatives underway which we believe can streamline the process and still include the testing of management controls.